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ABSTRACT

A new era of farming is evolving in Kentucky. Resulting primarily from the loss of medium-sized operations, there has been a decline in the total number of farms. The real value of farmland dropped 16% in Kentucky between 1981 and 1985. More farmers are seeking off-farm employment in order to continue family operations. Similarly, more farmers have returned to a tenant status to continue to farm. These trends will continue along with a "back to basics" approach to farming emphasizing reduced inputs, lower costs, diversification, and new market development. County extension offices can help farmers examine their financial situation including itemizing assets, debt to asset ratios, cash flow, debt service, future projections, and long-range planning. Extension offices can help farmers reorganize their finances by prioritizing loans, establishing more realistic budgets, and discussing alternative methods of payment with creditors. State land grant universities provide farm management programs, options for alternative commodities, programs for farm families, and rural development efforts. Rural development strategies include encouraging farm-related enterprises, technical/managerial assistance for rural entrepreneurs, improving rural services, and natural resource management. Community organizations that can help farmers include schools, churches, farm organizations, chambers of commerce, human service organizations, job services, health agencies, and volunteer groups. (NEC)

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FARM CRISIS IN KENTUCKY: WHAT CAN WE DO?

*Thomas W. Ilvento and James A. Christenson**

My family has been on this land for three generations, and all I want to do is pass it on to my son.

When you feel that you're a failure and you're not worth anything to anybody you feel you've got nothing to live for. I thought seriously about suicide. I was going to drive my tractor off the mile long bridge. (Farmer quoted in *Parade Magazine*, May 5, 1985.)

INTRODUCTION

Farmers today are facing changing conditions in agriculture that threaten their way of life. High interest rates, increased prices of inputs, sluggish prices for their crops, and falling land values have placed farmers in a difficult financial position that some have labeled a "farm crisis." Not since the 1930s have so many farmers been forced to declare bankruptcy. Many others have had to liquidate some or all of their assets in order to continue to farm. Still others are facing insolvency because of high debt to asset ratios. The poor financial condition of many farmers has led to increased stress in farm families, including suicide and divorce.

Importance of Agriculture in Kentucky

- 244,589 people live on farms of 1 acre or more with at least $1,000 worth of agricultural sales (1980).
- 1,554,832 people live in rural areas across the state. In all, more than 49% of the population in Kentucky is rural (1980).
- More than 66,600 people are employed in agriculture as their primary occupation (1985).
- In total, 107,902 people earn income from farm labor, either as full-time or part-time workers (1980).
- More than $1 billion of personal income can be traced directly to agriculture (1982). Cash receipts for farm products totaled nearly $2.7 billion (1984).

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Agriculture Affects All People

Agriculture is an important part of Kentucky's economy. In 1984, the estimated cash receipts from farm marketing were approximately $2.7 billion. The marketing of agricultural products provided needed export revenue for the Commonwealth, totaling $703 million in 1984. The influx of money from exports has multiplier effects that increase the value of this production. There are also industries that service farm production. In 1983, farmers spent more than $2.4 billion in producing their products. Finally, many other service and retail trade industries depend upon sales generated from farm products for their own well-being.

When the agricultural sector is depressed, the rest of the state suffers as well. However, the impact of current farm problems is not only felt in terms of economic production.

Traditionally, when agriculture is declining, there has been an out-migration from rural areas. The movement of population from rural to urban areas places increased demands on the nonagricultural sector for jobs, housing, and human services. Part of the migration is out-of-state. The state then tends to lose a valuable resource—its people. Migrants tend to be better educated and more skilled than those who remain behind. Already in Kentucky, we are finding a reversal of migration trends. The in-migration into rural areas of Kentucky during the 1970s has reversed to a pattern of net out-migration in the early part of the 1980s.

Some of the more devastating results of a depressed agricultural sector fall on local communities. Although the state economy will suffer, there are other sectors that can cushion the impact. But many individual counties are very vulnerable to a decline in agriculture. In some Kentucky counties more than 20% of personal income comes from agriculture and agricultural services. In these counties, a decline in agricultural revenues affects all residents. Service and retail trades suffer when farm income is down. Rural banks and lending institutions feel the pinch when farmers cannot pay their debts. There are greater demands for social services and financial services that can burden local governments. The loss of farms and the displacement of farm families also affect the social fabric of communities, for farm families belong to churches, they are members of civic organizations, their children attend the local schools, and they are often involved in local government. The problems of the farm sector are really problems that affect us all.

Kentucky farmers have been somewhat shielded from the crisis thus far and have maintained a low rate of default on loans. Currently, the default rate on FmHA loans is about 11%, the lowest in the country. This performance has been in part due to the diversified farm economy in Kentucky and also the high incidence of off-farm employment. More than 51% of Kentucky farmers spend more than 50% of their worktime off the farm. Other farm family members also work off the farm to supplement the household income.

However, there are signs that troubled times are looming ahead. Increased foreign competition in production and a restructuring of the price support system have resulted in lower prices for tobacco. Prices for other commodities such as corn, wheat, and soybeans have remained stagnant, while production costs have increased slowly. Farmers are beginning to feel the pressure of increased debts and decreasing value of assets.

Changing Era of Farming

A new era of farming is evolving in Kentucky. There has been a decline in the total number of farms, primarily resulting from the loss of medium-sized operations. More farmers are seeking off-farm employment in order to continue the family operation. Similarly, more and more farmers have returned to a tenant status in an effort to continue to

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farm. We can expect these trends to continue, along with a "back to basics" approach to farming. Farmers will need to reduce inputs, lower costs, diversify, and seek new markets in order to survive. These changes will not be easy, nor will they be without costs. However, they will be necessary in order to get through troubled times.

The first step in dealing with change is to become aware of its type and extent. We need to have some sense of where we are starting from, which directions we are headed in, how fast are we moving, and to what degree the change is taking place. Only then can we hope to develop adaptive strategies. This publication examines some of the issues concerning agriculture today. Some of these pertain directly to the farmers involved, while others recognize that we all share in the farm problem and that state government, local communities, and the general public can take actions to ease the situation.

WHAT FARMERS CAN DO

Farm Management Programs

The first step for many farmers is to gain a more detailed understanding of their present condition. Farm management programs are available through county Extension offices to help farmers examine their financial situation, including: itemizing assets, debt to asset ratios, cash flow, debt service, future projections, and long-range planning. These programs do not necessarily generate solutions to a farmer's individual problems. However, they can point out areas in which the farmer can improve his/her financial situation through better management techniques.

Options for the Future

Farmers also need to think about alternative strategies to make farming more profitable. Two approaches include a "back to basics approach" and the use of alternative commodities.

Back To Basics. Technological changes in the past fifty years have enabled farmers to produce more per acre (or per animal) with less labor. However, these technologies have primarily relied upon the substitution of capital for labor. Farmers have found themselves on a "technological treadmill" of sorts, constantly needing to invest in new production techniques to remain competitive. As long as there were markets for the increased outputs and help from price support programs, farmers were able to make a profit. Because prices for many commodities are currently sluggish while the cost of capital inputs has risen steadily, many farmers are facing prices that are near or below production costs.

Agriculture also has become much more specialized, both in terms of production and marketing. Capital-intensive production technologies coupled with federal programs that reduce risk have led farmers to specialize in single commodities. At the same time, more and more of the functions formally performed on the farm, such as inputs (feed, fertilizer) and marketing strategies, have shifted to off-farm firms.

In the future, farmers are going to have to examine more closely the cost-effectiveness of many inputs in order to restore profitability to agriculture. In some cases, this may mean reducing inputs or substituting less costly ones. In other cases, alternative production strategies may be needed, as they become more profitable relative to current approaches. Farmers also may need to protect themselves by diversifying their commodities.

Cutting Production Costs

Here are several ways a farmer can help cut production costs while still maintaining good yields. County Extension agents have more information on each of these techniques.

(1) Crop Rotation. Rotating crops can increase yields 5 to 10% without increasing costs. This is because it reduces insect, weed, and disease pressure.

(2) No-Tillage. No-tillage techniques conserve rainfall and increase soil water content, which provide a better hedge against drought.

(3) Good Timing. Planned and controlled planting and harvesting dates can greatly increase yields or reduce losses.

(4) Appropriate Seeds. Using the best variety for a location can increase yield potential while decreasing losses from disease.

(5) Limiting Inputs. Inputs such as fertilizers and pesticides should be calculated on a field by field basis. Use only what is needed.

Alternative Commodities. Another approach is to shift to new commodities that might be profitable for a given farmer or farm area. A farmer might have several options for new production opportunities but lack information concerning how to make the change. The College of Agriculture at the University of Kentucky has a series of publications entitled "Options For Kentucky Farmers." Each one examines a single commodity in terms of background information, production aspects, current supply, federal programs, and feasibility. These publications provide an introduction for farmers; more detailed information can be obtained through county Extension agents or state specialists.

Dealing with Creditors

Farmers also need to be aware of the changing conditions of the credit markets. Currently, interest rates are declining, but lenders are becoming more conservative with loans. The increasing number of foreclosures has forced lenders to be more cautious in accepting new loans. The problem is partly caused by the increasing debt to asset ratio of many farmers. A large portion of the increase in the ratio is due to decreasing assets. Between 1981 and 1985, the real value of farmland prices dropped more than 35% nationwide and dropped 16% in Kentucky. Other assets, such as farm machinery, are also declining in value at a time when increased numbers of farms are being sold at auctions. In addition, major changes in federal monetary policy have also helped to reduce agricultural assets. Many of these changes have placed farmers in economic difficulties beyond their control.

Because of this trend for lenders to be more conservative, farmers may find established lines of credit have been reduced or even eliminated. There also might be new conditions or stipulations concerning eligibility, terms of payment, or refinancing.

Another problem area is in dealing with personal and farm debts that have gotten out of hand. Some farm families are finding that they simply cannot pay all of their creditors. Often, this can lead to a great deal of stress. However, positive steps can be taken to begin to solve the problem of excessive debt. Many county Extension offices have materials to help farmers reorganize their finances so that, if loans cannot be paid in full, at least partial repayment is made. Agents can work with farmers to help them prioritize loans, establish more realistic budgets, and meet with creditors to discuss alternative methods of payment. Farmers can also liquidate all or part of their assets in an effort to meet their financial obligations.

Percent Change in Land Values

% change

Percent change 1981-85. 48-State average, -19 percent. Regional averages in parenthesis.

Reprinted from *1985 Agricultural Chartbook.*

Coping with Stress

A reduction in income, debt problems, or the threat of a loss of the farm are stressful situations. The changing conditions of agriculture should send a signal to all of us to be aware of the likely increase of stress in our lives. But what exactly is stress?

When There Are Too Many Bills

(1) Work Out A Budget. Determine your present situation by listing income, assets, debts, and monthly expenses. Then, you can sit down and work out a realistic budget, including the amount you can afford to pay for debts.

(2) Contact Your Creditors. It is far better to face creditors with a realistic payment plan than simply not to make payments. Working with creditors and negotiating an acceptable plan helps your long-range credit record.

(3) Prioritize Debts. For varying reasons, some debts will have greater or lesser priority. You should consider such things as your equity in the loan, the effect the loan has on your family's health and safety, the collateral for the loan, and the interest rate for each loan. Some debts will be easier to pay off than others.

(4) Determine Other Options. There may be sources of help in your local church or community for such things as emergency loans, help with utility bills, and general aid. You may also consider consolidating loans (if interest rates are better) or seeking professional financial counseling.

Stress has been defined as a physical or mental reaction to anything that threatens our survival. Some stress is good: it helps us become alert and aware of a threatening situation and rise to the occasion. However, too much stress is self defeating and limits our ability to deal with change. It affects us emotionally and physically. Stress can interfere with interpersonal relationships at home, on the job, and in our families. It can also lead to health problems such as insomnia, ulcers, and migraine headaches.

Several factors have been identified as leading to an overload of stress. Many derive from our own attitudes and perceptions about new situations, including fear, uncertainty, and hopelessness. It is easy to see that all of these factors are relevant to farmers and farm families today. Many farm families are worried over the potential loss of the farm, rising debts, financial difficulties, uncertainty over the future, and the general prospect of change. Farm families also tend to blame themselves for many of their problems, which leads to guilt and increased stress.

WHAT WE CAN DO

The farm problem is one that we all share. The solution will have to come from a cooperative effort of state government, local government, and concerned individuals.

State Support

Land Grant Universities. The state has a mechanism to deal with agricultural issues through its two land grant universities, the University of Kentucky and Kentucky State University. These universities provide research through Colleges of Agriculture and educational outreach through the Cooperative Extension Service. Together, these components of research and Extension provide valuable information to farmers, farm families, and the general population of Kentucky. The land grant system in Kentucky will continue to respond to the needs of Kentucky's farmers through County Extension offices, farm management programs, options for alternative commodities, programs for farm families, and rural development efforts.

State Agencies. There are also other state agencies that provide aid and services for farmers. The Kentucky Department of Agriculture monitors changes in agricultural production, provides statistics for planning purposes, and helps in marketing Kentucky's products, among other things. There are also departments of Employment Services, Social Services, Housing, and Health Services. These agencies need to be made aware of the problems farmers and farm communities are facing so that they can be mobilized to help deal with the changing structure of Kentucky's agriculture.

What To Do About Stress?

County Extension offices have a series of six leaflets on farm stress:

(1) Farming—A Stressful Occupation
(2) Stress Symptoms
(3) Stress Management for Farmers
(4) Stress Management for Couples
(5) When Generations Farm Together
(6) Farm Stress Management Plan

Rural Development Efforts. Increasingly, farm families have looked to off-farm income to supplement farm income. Nationwide, only 55% of all farm operators count farming as their principal occupation. In Kentucky, that figure is 48%. Nearly 67% of farmers operating farms with less than $40,000 in sales (87.3% of all Kentucky farms) have some off-farm income. As more and more farmers face financial difficulties, off-farm income will become even more important. Without local off-farm work opportunities, farmers leaving agriculture will also be forced to leave their local communities.

At the same time, many rural areas depend upon agricultural production as an economic base. The loss of farms in rural America also means an economic loss for many communities. Now, more than ever, we need to link the agricultural and nonagricultural sectors of rural Kentucky when we speak of rural development in order to develop a comprehensive strategy.

Some strategies for relating agriculture to the general theme of rural development include encouraging farm-related enterprises, technical and managerial assistance for rural entrepreneurs, improving rural services (including transportation, communications, and local government), and natural resource management. Economic development is also important because new jobs are needed for those people leaving farm-related occupations. Additional development efforts can take the form of aid and job training for farmers making the transition to the nonfarm sector.

Community Support

There are many things communities can do to help local farmers. The first step is to make people aware of how the changing circumstances will impact the local community. Then we can begin to mobilize community support and action. One such community-based program used in other states is the establishment of a network of community leaders and agencies to help mobilize community resources. Referred to as Community Resource Networks, these groups coordinate local efforts to direct aid in a smooth and efficient manner. Community organizations that can help include:

- County Extension Office
- Schools
- Churches
- Farm Organizations
- Chamber of Commerce
- Human Service Organizations
- Job Services
- Health Agencies
- Volunteer Groups.

Local and county officials also need to prepare for changes that might impact local government services, including: an increased demand for human services (welfare, unemployment); increased demand for off-farm employment; loss of tax revenue; potential out-migration; and potential unwillingness to support some public services such as education or roads. Local development efforts are one way to help increase off-farm employment opportunities and aid the community at the same time.

Community Resource Networks

These groups can facilitate:

- Inter-agency cooperation
- Hotlines: referral networks linking farm families with agencies that provide resources such as: legal advice, counseling, management options, and job counseling and training
- Workshops for farmers and loan officers covering such things as: debt payment, legal options, resource management, and new loan requirements
- Food pantries to aid farm families
- Emergency and medical assistance
- Public awareness.

Individual Support

Many farm families are facing extremely difficult economic conditions and more are expected to join that group over time. Most of these families have been very independent, successful farm owners and operators for many years and have never had to ask for any type of help. Now that they are faced with problems, they have little experience in knowing where to go and what questions to ask. Instead, they are embarrassed and hurt, and blame themselves for their present situation, even though many of the current farm problems are beyond the power of the individual farmer to solve. They need our support to help them through these stressful times. Sometimes all this means is being a good listener or encouraging someone to talk about their problems. Individuals also can get involved in farm solutions by

creating awareness in their local communities, communicating concerns to elected officials, and volunteering in local organizations.

SUMMARY

Kentucky farmers are faced with changes that will affect agriculture for some time to come. We are already beginning to see some of the financial and emotional stress resulting from these changes. While some farmers will be forced to leave agriculture in search of other employment, others will have to supplement their farm income with off-farm work, and all will face far-reaching changes.

The current farm situation affects everyone. Either directly or indirectly, we all share in the promise and the decline of Kentucky's agricultural sector. Kentucky can emerge from today's farm crisis with a stronger and healthier agricultural base. However, meeting this challenge will take a strong effort from state and local officials, as well as from concerned individuals.